

VZCZCXRO1690
PP RUEHMA RUEHPA
DE RUEHDK #0153/01 0381153
ZNR UUUUU ZZH
P 071153Z FEB 08
FM AMEMBASSY DAKAR
TO RUEHC/SECSTATE WASHDC PRIORITY 9990
INFO RUCPDOC/USDOC WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC
RUEHLMC/MCC WASHDC
RUEHZK/ECOWAS COLLECTIVE

UNCLAS SECTION 01 OF 02 DAKAR 000153

SIPDIS

SIPDIS

STATE FOR EB/IFD, AF/EPS, AND AF/W
TREASURY FOR OIASA/EBARBER, RHALL

E.O. 12958: N/A

TAGS: ECON EFIN EAID ETRD EINV SG

SUBJECT: SENEGAL'S ACCELERATED GROWTH STRATEGY - MOVING FORWARD OR
GETTING BOGGED DOWN?

DAKAR 00000153 001.2 OF 002

¶1. SUMMARY: On December 31, 2007, Senegal's National Assembly passed a law to speed up the implementation of one of President Wade's cornerstone economic policies, the Accelerated Growth Strategy (AGS). The legislation also combines the AGS' goals into Senegal's 2006-2010 Poverty Reduction Strategy Paper's (PRSP) priorities, which are designed to achieve the Millennium Development Goals by 2015. The law also called for the introduction of new action plans to boost key strategic sectors (agriculture, fishing, tourism, textile, and electronic customer support services) and to establish Senegal as "a world class business environment." The AGS has faced criticism for being overly optimistic given Senegal's history of modest growth and for underestimating current difficulties in key strategic sectors. END SUMMARY.

AGS DESIGNED TO BOOST ECONOMIC GROWTH AND IMPROVE OVERALL BUSINESS CLIMATE

¶2. The AGS was officially "launched" in September 2007 but had been a central point of discussion within the GOS and with donors since January 2005. The underlying goal is to establish sustainable real annual GDP growth of at least seven percent in a manner that creates jobs, increases incomes, and reduces poverty. The AGS's stated goal is to establish the private sector as the engine for growth instead of the public sector. The AGS approaches this goal with two main pillars: the selection and promotion of strategic sectors with high potential for economic growth and the establishment of "a world class business environment." Consultations among different partners, including donors, researchers, and civil society groups, helped formulate AGS's focus on the following sectors: agribusiness; fisheries and aquaculture; tourism and artisanal art; textiles; and communication and information technologies and services. The National Assembly's action was not the final bureaucratic step. Next, a committee will finalize the action plan for the key sectors with the plan needing to be approved by a decree from President Wade, before the end of February if the program stays on track.

¶3. According to the action plan, the GOS aims to establish "a world class business environment" by implementing structural reforms to improve the business climate, reduce red tape, combat corruption, reinforce the judicial system, improve transportation infrastructure, enhance electricity transmission systems, modify the labor code to make it more flexible, improve private sector access to credit, and update land ownership laws. Emerging from this effort is supposed to be a new dynamic for entrepreneurship (with a focus on women and private investment).

¶4. The same basic package of action items to improve Senegal's

business climate have been on the GOS's agenda for more than a decade, but they have not been implemented, largely due to political conflicts of interest. However, Senegal has taken some positive steps lately, including progress on a new special economic zone to ease access to land for investors, the reduction in the length of time to create a business from 58 days to 2 days, a new focus on public-private-partnerships, and the establishment of a regional center in Saint Louis to monitor the drag on business of administrative procedures.

BURDENED BY A COMPLEX VISION AND UNDERLYING REALITY

¶15. Actual implementation of the AGS will likely require financial and program support from donors, and significant outlays from Senegal's budgets, both national and local. An accommodation of government-driven administrative bureaucracy is also assumed. The Prime Minister's office is to create a National Steering Committee, to "reinforce and strengthen consensus and communication among the civil servants, the civil society, the private sector and all the other economic and social development actors" to support the AGS's goals. The strategy promotes a broad range of key principles including using the cluster approach for strengthening targeted sectors, promoting public-private partnerships, and building a national "pact" for economic emergence by partnering with labor unions and civil society.

¶16. Though the AGS objectives are clearly identified, critics and observers find the scenarios for real GDP growth very optimistic, given the historical trends of real GDP growth in Senegal -- which has never reached 6.5 percent since 1994 and is anticipated to be at 4.8 in 2008 (according to Senegal's Department of Forecasting and Economic Studies). Another concern is that ongoing, massive subsidies to the energy sector, which in recent years had contributed to a worsening of Senegal's fiscal deficit, could easily undermine macroeconomic stability in the years to come. As noted by one opposition leader "in a country with no major sustainable energy development policy, the success for the AGS to meet a seven percent real GDP growth per year, reduce poverty, create wealth, and attract

DAKAR 00000153 002.2 OF 002

new investors, might be seen to be an illusion."

¶17. Apart from the communication and information technologies and services cluster, the main pillars of the AGS (agriculture, fishing, tourism, and textile) are all facing deep-rooted structural difficulties. For many, the AGS is not a plan for a more modern economy, but rather a continuation of support to sectors which are largely uncompetitive in a global economy. Politically and socially, however, the GOS is hoping to keep them afloat since they account for a huge portion of employment in the country and are key to alleviate poverty in rural areas.

¶18. USAID/Senegal's economic growth program is designed to support the AGS. Technical assistance and training is provided to develop the policy reforms necessary for AGS implementation, promote public-private partnerships and increase exports among the clusters targeted by the strategy.

AGS TO BE ALIGNED TO PRSP II

¶19. The law passed by the National Assembly (as drafted by President Wade's administration) requires additional complexity for the AGS by requiring that it align with the country's development goals found in the second Poverty Reduction Strategy Paper (PRSP II). The GOS foresees that this cohesion of the two programs will require additional extensive consultations with a broad range of partners from the private sector, trade associations, donors, and civil society. Also, the AGS and PRSP II have to be in line with the Millennium Development Goals to alleviate poverty, improve education, and health conditions.

COMMENT

¶110. We applaud the goals of a program to significantly enhance growth rates, and the GOS's engagement with the private sector and donors on its implementation. Although ambitious, the framework of

the AGS appears sound. The risk is that, like many GOS programs, the AGS will become overburdened by grand themes and special interests. Applying what should be clear-eyed approaches to an economic growth action plan to the development guidelines of the PRSP and MDGs risks weighing-down both efforts. Moreover, it remains to be seen if the government places sufficient urgency on implementing the necessary policy reforms for the AGS to have any affect on growth rates in the near future.

SMITH